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HERCULES

HERCULES

Annual Report
2001

HERCULES

HERCULES

*Hercules Incorporated, Hercules Plaza, 1313 North Market Street
Wilmington, DE 19894-0001 (302) 594-5000*

ATTACHMENT
(2 of 4)

HERCULES

Hercules Incorporated
Hercules Plaza
1313 North Market Street
Wilmington, DE 19894-0001

William H. Joyce
Chairman and
Chief Executive Officer

April 10, 2002

Dear Fellow Shareholder:

2001 was a challenging year for Hercules. As with the chemical industry overall, we continued to experience difficult business conditions in the markets we serve. These conditions and other factors, including a heavy debt burden, resulted in a net after-tax loss for the year of \$58 million, on revenues of \$2.62 billion.

Despite our disappointing results and the difficult environment, we have successfully undertaken a number of significant actions during 2001 that we believe will enable us to dramatically improve our financial and operating position.

In the third quarter 2001, we implemented a comprehensive cost reduction and work process redesign program with the goal of reducing our fixed cost structure at an annualized rate of \$100 million by mid-2002. This strategic program goes far beyond taking out substantial excess costs—it is also improving the efficiency and productivity of all our businesses, enhancing the quality and service we provide customers, and will ultimately improve the overall value of the company. I am pleased to report that we achieved our \$100 million annualized target by year-end, six months ahead of schedule. We have since raised our savings target to \$200 million and are executing successfully against it.

We're pleased with the substantial progress we have made, and our employees should be commended for their hard work and commitment to this effort. The results have been extremely important, particularly given the challenging environment we're operating in. Our focus on those things we can control has helped improve the performance of our businesses.

The results of our work process improvement were particularly important in our BetzDearborn business. By focusing early on this business, we were able to demonstrate a substantial improvement in earnings capacity, which led to the successful sale that was announced in early 2002.

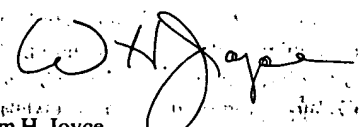
The sale of the BetzDearborn Water Treatment business to GE Specialty Materials for \$1.8 billion, with net after tax proceeds of approximately \$1.665 billion, will significantly reduce Hercules' debt and thereby materially strengthen its financial position. We will retain the paper process chemicals portion of BetzDearborn, representing approximately one-third of the business originally acquired in 1998. It's an excellent asset that is now completely integrated with our Pulp and Paper Division.

With much greater financial flexibility, we will be able to focus on improving and growing our remaining businesses, which hold #1 or #2 positions in their sectors. As we concentrate on these businesses, we will also remain intensely focused on the continued implementation of our cost reduction and work process redesign program.

We still have more to do, but there's no doubt that Hercules today is a much stronger organization than it was 12 months ago. It's clear that we're on the right path. We remain committed to strengthening our company through improving our processes, enhancing our technology, providing our customers with the highest quality products and services, and building on our relationships with those customers—all with the goal of maximizing value for our shareholders.

Thank you for your continued support.

Sincerely,


William H. Joyce
Chairman and Chief Executive Officer

Principal Consolidated Subsidiaries as of December 31, 2001

Argentina

Hercules Argentina S.A.

Australia

BetzDearborn Australia Pty, Ltd.

Little H Pty Ltd.

Austria

Hercules Austria GmbH

Bahamas

Hercules International Trade Corporation Limited

Belgium

BetzDearborn N.V.

Hercules Beringen B.V.B.A.

Hercules Doel B.V.B.A.

Hercules Europe B.V.B.A.

Hercules Holding B.V./B.V.B.A.

Bermuda

Curtis Bay Insurance Co. Ltd.

Brazil

Hercules BetzDearborn Ltda.

Hercules do Brasil Produtos Quimicos Ltda.

Canada

BetzDearborn Canada, Inc.

Hercules Canada Inc.

Hercules Canada (partnership)

Chile

Hercules Quimica Chile Ltda

China

Beijing Hercules Chemical Co. Ltd.*

FiberVisions (Suzhou) Nonwovens Products Co. Ltd.

FiberVisions (China) Textile Products Ltd.

Shanghai Hercules Chemicals Co., Ltd.*

Colombia

Hercules de Colombia S.A.

Croatia

BetzDearborn d.o.o.

Curacao

BetzDearborn Caribbean N.V.

Czech (Republic)

Hercules CZ s.r.o.

Denmark

Hercules Denmark A/S

FiberVisions, A/S

Hercules Investments ApS

Ecuador

BetzDearborn de Ecuador S.A.

Finland

Hercules Finland OY

France

Aqualon France B.V.

BetzDearborn SA

Hercules SA

Germany

Abieta Chemie, GmbH*

BetzDearborn GmbH

Hercules Deutschland GmbH

Hercules GmbH

Hong Kong

Hercules China Limited

Hungary

BetzDearborn Hungary Kft

India

Hercules Specialty Chemicals (India) Private Limited

Indonesia

P.T. BetzDearborn Persada

P.T. Hercules Chemicals Indonesia

Ireland

BetzDearborn Ireland Limited

Italy

Hercules Italia SpA

Japan

Hercules Japan Ltd.

Nippon BetzDearborn K.K.*

Korea

BetzDearborn Korea, Ltd.

Hercules Korea Chemical Co. Ltd.

Liechtenstein

Organa Trust

Luxembourg

Hercules Investments S.a.r.l.

Hercules Luxembourg S.a.r.l.

Hercules European Participations S.a.r.l.

Malaysia

Hercules Chemicals (Malaysia) Sdn. Bhd

Mexico

BetzDearborn de Mexico S.A. de C.V.

Hercules Inc. Mexico, S.A. de C.V.

Hercules Mexico, S.A. de C.V.

*This entity is owned in part by Hercules with the remaining interest held by a third party.

Netherlands

Aqualon France B.V.
Betz Chemical Technologies B.V.
BetzDearborn B.V.
Hechem B.V.
Hercules B.V.

Norway

Hercules Norway A/S

Peru

Hercules del Peru S.A.

Poland

Hercules Polska Sp. z o.o.

Portugal

Misan Portuguesa, Lda.

Singapore

Hercules Chemicals Singapore Pte Ltd.

South Africa

Hercules Chemicals South Africa (Pty) Ltd.

Spain

Hercules Quimica, S.A.

Sweden

Betz KEMI AB
BetzDearborn AB
Hercules AB

Switzerland

Fibervisions A.G./Fibervisions Ltd.

Taiwan

Hercules Chemicals (Taiwan) Co., Ltd.

Thailand

Hercules Chemicals (Thailand) Co., Ltd.

United Kingdom

BetzDearborn Limited
Hercules Investments Global Ltd.
Hercules Limited
Hercules GB Holdings Limited

Uruguay

BetzDearborn de Uruguay S.A.

United States

Aqualon Company, Delaware
Athens Holding Inc., Delaware
BetzDearborn Europe, Inc., Delaware
BetzDearborn Inc., Pennsylvania
BetzDearborn International, Inc., Pennsylvania
BL Chemicals Inc., Delaware
BL Technologies, Inc., Delaware
BLI Holding Inc., Delaware
Chemical Technologies India, Ltd., Delaware
Covington Holdings Inc., Delaware
DRC, Ltd. Delaware
East Bay Realty Services, Inc., Delaware
FiberVisions Incorporated, Delaware
FiberVisions, L.L.C., Delaware
FiberVisions L.P., Delaware
FiberVisions Products, Inc., Georgia
Hercules Chemical Corporation, Delaware
Hercules Chemicals International, Inc., Delaware
Hercules Credit Inc., Delaware
Hercules Euro Holdings, L.L.C., Delaware
Hercules Finance Company, Delaware
Hercules Flavor, Inc., Delaware
Hercules International Limited, Delaware
Hercules International Limited, L.L.C., Delaware
Hercules Trust I
Hercules Trust II
Hercules Shared Services Corporation, Delaware*
WSP, Inc., Delaware

Venezuela

Hercules-BetzDearborn C.A.

Virgin Islands

Hercules Islands Corporation *
Hercules Overseas Corp.

*This entity is owned in part by Hercules with the remaining interest held by a third party

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE:

None.